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**Latvia**

**Retail Food Sector**

**Report**

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**Report Highlights:**

With the increased purchasing power of Latvia's population and growing tourism, there is an increased demand for imported high-value food products. American exporters must be more aggressive as European countries have already established distribution networks. Consumers are more familiar with grocery products of Scandinavian, German and Central European origin. The rapid consolidation of retail outlets in the Latvian food market by large Scandinavian chains may provide new opportunities for exporters who can successfully connect with these companies. Major current constraints to exports of U.S. products include the unfamiliarity of consumers with U.S. products and tariff disadvantages vis-a-vis European suppliers and partners of Free Trade Agreements with Latvia.

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Annual Report

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## SECTION I. MARKET SUMMARY

Latvia is among the fastest growing economies in Europe. In 2000, Latvia's GDP grew by 6.6 percent, the greatest growth in the Baltic region. However, its per capita GDP of US\$ 3,013 was several times lower than the average among countries of the European Union. Successful economic development continued in 2001, as GDP surged 8.8 percent in the first half of the year. Stringent monetary policy fostered low inflation and provided for macroeconomic stability.

Because of the expectation that Latvia will accede to the European Union within the next 2-4 years, foreign investments and restructuring, including the modernization of the retail sector gave a boost to standards of living. With overall purchasing power of the population on the rise, there is an increased demand for processed food products.

Western investors entered the Baltic retail food market in the mid nineties. The ground breakers were Finland's Rautakirja, Kesko, S-group and Stockmann and Norway's Rema1000. These companies were followed by Sweden's/Norway's/Netherlands ICA Ahold with its daughter company ICA Baltic, mainly Norwegian-owned Baltic Food and Narvesen Baltija, which is owned by Norwegian Reitan Narvesen and Finnish Rautakirja. Both ICA Baltic and Baltic Food are running stores in all three Baltic countries. Narvesen Baltija has a large number of kiosks and convenience stores only in Latvia. Apart from Nordic investors, the Lithuanian company VP-market, Vilnius Prekyba has opened stores in Latvia and Estonia.

Advantages and Challenges Facing U.S. Products

Advantages	Challenges
The general image of U.S. products is positive. They are considered to be safe and of good quality. Businesses are receptive to U.S. companies.	Low awareness of U.S. retail products, too few U.S. products on shelves of supermarkets
Inflow of Scandinavian/European retailers into the Latvian food retail sector and emergence of pan-Baltic food retailers. This offers the opportunity for chains to consolidate imports for the entire Baltic region.	Long-established consumer preference for domestic fresh products without additives and preservatives.
Latvia joined the WTO in 1999, improving market access.	U.S. products face MFN duty rates compared to preferential tariffs and zero rates for exports from the EU and FTA partners
Increased purchasing power is creating consumer demand for greater diversity and convenience of food products.	Consumer demand remains very price sensitive

Although small shops and outdoor markets still dominate, supermarkets are becoming more influential, especially in the suburbs. As a part of the ongoing restructuring, the total number of stores selling food is declining. In 2000, the domestic retail food trade amounted to US\$ 1,036 million, and growth in 2001 is estimated at between 10-12 percent. In 2000, food was sold in 87 supermarkets, 2 hypermarkets, 5,693 retail stores, nearly one hundred outdoor farmers' markets, and numerous kiosks and stands.

#### Value of retail food sales by sub-sector in 2000

Sub-sector	Food Sales (\$US Mil)
Supermarkets/Hypermarkets	155
Convenience Stores/Gas Marts/ Kiosks	259
Outdoor markets/Independent Groceries	622
<b>Total</b>	<b>1,036</b>

Of the total value of Latvian retail food sales, imports accounted for nearly 30 percent. On average, about 60 percent of the selection at supermarkets are imported products, making up 40 percent of sales value. Imports are viewed as a means of adding to the variety of products offered.

Because purchasing power is growing fast in Latvia, Latvia is trending towards one-stop shopping at well-stocked and modern supermarkets and hypermarkets. Traditional open markets and small local vendors will inevitably continue to lose market share. This development will be the fastest around the big cities, and there is already a race for the best locations in the Riga area.

## SECTION II. ROAD MAP FOR MARKET ENTRY

### Consumer profile

Latvia has a population of approximately 2.36 million. The average gross monthly wage in the public sector totaled US\$ 282 in mid 2001. The average monthly income per household member was US\$ 110 (close to the minimum sustainable level), up by 7 percent from 2000. On average, Latvians spend approximately 37 percent of their income on food, and estimates show that eating out accounts for 13 percent of their total food expenditure. Of the 1.04 million people employed, women account for 49 percent, contributing to the increased interest in ready-made products. Of the total population, 26 percent are retired. In 2000, the average pension allotted under the social welfare system was US\$ 100 per month. This amount does not allow any variety in food purchasing. Nearly 30 percent of the population live in rural areas. In many households, home-grown products provide the staple, mainly due to limited income. The total population is decreasing due to the negative birth rate and emigration.

Although the average consumer remains very price sensitive, there is a growing number of western-

oriented consumers who prefer to shop at modern stores with a wide and attractive product assortment. Consumer preferences differ significantly among various income, age and ethnic groups. A preference for new products is strong among the younger population. An increased expatriate community and fast-growing tourism is adding to the demand for high-value processed products. The tourism business brought 1.9 million visitors to Latvia in 2000. However, the majority of Latvians are still not major buyers of high-value products. Of about one million shoppers in Latvia, only the higher income segments (10-15 percent) are regular consumers of high-value processed food products. These customers buy food at supermarkets 2-4 times per week, and are more concerned with variety, quality and brand names than price. The average retail purchase is of considerably lower value compared to the European customer.

Another 10-15 percent of the population makes up the second income group, categorized as occasional buyers, or "tasting level" buyers. With increased purchasing power, this group provides the base for future demand and can be targeted for promotional activities. According to surveys, about 80 percent of the consumers prefer domestic food products which are fresh, free of additives and preservatives, have low prices and are familiar in taste. Customer concerns do exist about the presence of bioengineered ingredients in food and consumers have shown a distinct interest in organic foods.

#### Entry Strategy

Market entry strategies for U.S. food products should include:

- 1) Market research in order to estimate product opportunities.
- 2) Advance calculation of the landed cost of a product in order to make price comparisons vis-a-vis competitors.
- 3) Locating an experienced distributor or independent reliable agent with strategic distribution channels, to advise on import duties, sanitary regulations, and labeling requirements. It is advisable to initiate personal contact in order to discuss marketing matters such as funding for advertising, slotting allowance, in-store promotions and tasting events. Suppliers may also wish to consider trade fair participation to raise awareness of the product.
- 4) Explore the purchasing arrangements of the larger retail chains.

All applicable duties and taxes are collected by customs authorities upon clearance of imported goods at the border unless the cargo is forwarded to a bonded warehouse.

Imported food products are tested and approved by the Conformity Assessment Centre. Labeling in the Latvian language which includes product name, the name of the manufacturer, the origin, a listing of ingredients, additives, net quantity, name and contact information for the importer, instructions of use, storage directions and expiration dates is required. With regard to bioengineered ingredients, Latvia will follow EU regulations and certification requirements. As of July, 2001, special labeling is required for food products and ingredients produced of or derived from genetically modified organisms (GMOs). A one percent threshold is permitted for accidental contamination. The importer should be consulted regarding packaging and labeling requirements.

The Latvian legal system is presently sufficiently developed to have in place both trademark protection

and licensing provisions. Franchising is increasingly being used for business expansion.

#### A. Supermarkets and Hypermarkets

The process of consolidation of the retail market and inflow of Scandinavian/European retailers increased the competition and contributed to the fast growth of the retail sales of processed food products in the growing number of supermarkets and hypermarkets. In 2000, supermarkets and hypermarkets accounted for 15 percent of retail food sales estimated at US\$155 million. Supermarket and hypermarket sales are expected to double within the next few years.

#### Profiles of the Largest Chains

##### **Rimi/Interpegro**

In late 1999, the Swedish/Norwegian/Dutch ICA AHOLD, strengthened its presence in the Baltics by obtaining Rimi supermarket chain. ICA has a strong position in Latvia where it is currently operating 24 Rimi stores. The majority of the stores are located in Riga area, the resort town Jurmala, and the port city Ventspils, targeting the Latvian middle class buyer. The company expects to triple sales in Latvia to gain about 30 percent of market and to grow to about 60 stores by 2004. Recently, a Maxi Rimi hypermarket was opened in Riga and three more Maxi Rimi stores are planned for the Latvian capital. To handle the rapid expansion, the company is currently building its own distribution central in Riga. It is expected to be operational by the summer of 2002.

**Kesko**, a Finnish company, opened its first Citymarket in the outskirts of Riga, the capital of Latvia, in September 2001. It plans to add some 15 large supermarkets in the Riga area within the next two to three years. Kesko acquired a number of S-stores from the Estonian Saastumarket chain last year. The Citymarket's products consists of 15,000 items which currently include a lot of fresh produce and a large assortment of wines. Kesko is presently purchasing locally, but may begin to use its distribution center in Estonia to offer more imported products in its Latvian stores when volumes increase. Kesko is aiming for a 25 percent share of the Latvian retail market.

##### **SKY Supermarkets**

There are two SKY supermarkets in Riga that were opened through a franchise agreement with the German company Schleswig-Holstein. Five more are expected to be opened over the next 3 years. SKY aims at the higher income level buyers of Riga and its nearest suburb, Jurmala. The company's strategy is to attract customers through providing a wider selection. Some 50 percent of its assortment of products is supplied directly from Germany and the Netherlands.

##### **Vilnius Prekybos**

The largest Lithuanian operator of supermarkets and trade centers Vilnius Prekybos, entered Latvia in 2000. Presently, it operates 5 T-Market discount stores. The construction of two MAXIMA trade centers is underway.

The **NELDA** Chain has significantly grown over the past five years, and now includes 17 grocery stores, 13 fast food outlets, bakeries and food pre-processing lines in the metropolitan area.

### Mego Chain

There are 15 Mego supermarkets in Riga. Some five more stores are to be opened in the metropolitan area, after which the company will move to the other largest cities in Latvia. Recently a Maxi Mego warehouse outlet, was opened to service medium and small-size retailers and catering businesses.

### Bumbieri

Bumbieri is a successful local retail chain of nine stores operating in regional city centers. Five more stores are scheduled to be opened in the near future.

### Rema 1000/SPAR

The SPAR supermarket chain, operated by Baltic Food, is now largely owned by Norwegian interests. Both Norway's Rema and Sweden's Axfood has pulled out of ownership.

Company profiles

Retailer Name, Market Type	Owner, country	2000 Sales (\$US Mil)	Number of Outlets	Location	Purchasing
Rimi/Maxi Rimi Chain of Supermarkets and one Hypermarket.	ICA Baltic, Swedish/ Norwegian/ Dutch	74	24	Riga, Jurmala, Ventspils	Direct imports, wholesalers, processors, farms
City Market	Kesko, Finnish	N/A	1	Riga	Local suppliers/ wholesalers
SKY Supermarkets	Skai Baltija, German	8.5	2	Riga	Direct imports, wholesalers, processors
MEGO Supermarkets	Latvian, Russian	9.4	15	Riga	Direct, own distribution center, wholesalers, processors
NELDA Chain of Groceries and Supermarkets	Latvian, U.S.	23	17	Riga (capital)	Wholesalers and processors

<b>SPAR Supermarkets</b>	<b>Baltic Foods, Norwegian</b>	<b>8</b>	<b>10</b>	<b>Riga (capital) and regions</b>	<b>Wholesalers and processors</b>
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To emphasize convenience, supermarkets provide a variety of additional services to consumers such as deli items, cafeterias, home-meal replacements and party trays. In more and more stores, small businesses such as gift and parcel wrapping, flower shops, and currency exchange add to the stores' attractions. Larger supermarkets offer dry-cleaning, shoe repair and cleaning, banking services, insurances, film developing, and video rental. Wholesale clubs have not yet appeared in the Latvian market.

#### B. Convenience stores, gas marts and kiosks

The total grocery product turnover of convenience stores, gas marts and kiosks is estimated to be about US\$ 259 million divided 50/25/25 percent, respectively. The stores in this sector are operated by chains. Imported products are usually sourced by local wholesalers. This sector is expected to grow as a result of the general growth of the food market.

Convenience stores have become increasingly popular and offer a large selection of imported food products. The largest sales by convenience stores belong to the Turiba chain and the OKAY chain. They are situated in the metropolitan areas of the largest cities. Foreign companies/investors are increasing the total number of convenience stores by acquiring and upgrading the traditional independent stores through purchasing or franchising agreements.

On average, food retail generates up to 15 percent of total sales by gas stations. This sector has a stable demand from customers who are willing to pay an extra 10-15 percent for convenience, better service and high quality. Product choices, however, are limited. Norwegian Statoil leads this sector with a 30 percent market share. The foreign-owned gas-mart chains in Latvia have a specialized supply system. The attractiveness of gas marts may decrease among buyers with the fast development of supermarkets with easy parking and increased product varieties.

Recent market entrants with foreign capital are expected to push the development of kiosks through upgrading and consolidation. The leaders of this sector are Narvesen and Plus Punkt chains. Narvesen Baltija is jointly owned by Norwegian Reitan Narvesen and Finnish Rautakirja. The company currently runs 470 kiosks and about 20 convenience stores in Latvia.

#### C. Independent Groceries and Wet Markets

Small, independent grocery stores are declining in number with the appearance of more and more supermarket chain stores. However, this type of store will continue to operate in small towns and throughout the countryside, where almost one-third of the population resides. In general, these outlets attract low income customers with preferences for domestic products. Product lines differ greatly from location to location.



The retail food turnover was estimated US\$ 622 million in 2000 for independent groceries and wet market subsectors. The share of imported products in traditional groceries is small and declining. About 20 percent of all small grocery outlets belong to the Turiba Consumers Cooperative Association.

Although supermarkets are considered to be the most convenient way to distribute merchandise, many customers cannot afford supermarket prices and prefer shopping at farmers' markets. Open-air markets mostly belong to municipalities are considered as serious competitors to retail stores in suburbs, regional centers and small towns. The average customer of open markets is extremely price conscious and prefers domestic products. During the summer, almost all segments of the population prefer shopping at open-air markets for fresh domestic produce sold largely by farmers. To add variety, produce, fresh vegetables and fruits are imported by a few large importers and distributed by smaller distributors/wholesalers. Processed vegetables and fruits, confectionary, bread products, dairy products, fish, meat, and poultry are sold at kiosk-type outlets in the traditional markets. This sector offers extremely limited opportunity for sales of food products imported from the U.S., except for frozen poultry.

### SECTION III. COMPETITION

Over the past 5-6 years, European suppliers of food products have gained significant market shares and have a strong market presence. The reasons for their success include proximity, historical ties, high quality products, competitive prices, marketing support and logistical advantages. These companies have also benefitted from their government's financial and marketing assistance.

A number of constraints have contributed to the relatively small market share of U.S. foods:

--- Latvia has been modifying sanitary and phytosanitary standards in conjunction with its preparations for EU accession. Some of these have blocked once-existing U.S. trade, especially of pork and beef. The new poultry import certificate requirements were effected September 1, 2001, could hamper exports of US poultry.

--- Due to preferential tariff duties and increased TRQs for agricultural and food products provided by Latvia's July, 2000 agreement with the European Union, duties for EU imports are gradually declining vis-a-vis the MFN rates applied to imports from the U.S.. In addition, consumers in Latvia are more familiar with grocery products of Scandinavian and German origin.

--- Under free trade agreements signed with its Baltic neighbors, EFTA and CEFTA countries, Latvia's imports from the countries which are parties to these agreements have lower duties than the rates applied to imports from the U.S.. As much as 84 percent of Latvian agricultural exports and 80 percent of Latvian imports occur with the EU countries and countries with which Latvia has FTAs.

--- U.S. imports also face the constraints related to the conformity assessment procedures. Conformity assurances for food products from the EU member states, Baltic FTA partners and EFTA countries are recognized automatically, while those issued by authorities in other countries are recognized by the

Conformity Assessment Center through a costly procedure of product clearance and approval.

--- Frequently, the choice of importer/supplier depends on a trading company's ownership, as part of the company's stock may belong to foreign investors who base their decisions on financial ties rather than on quality or price.

During the past seven years, Latvia's agricultural trade balance has run a deficit. In 2000, Latvian imports of agricultural products totaled US\$ 405 million, while the value of exports totaled a much lower US\$ 108 million (not including wood products). EU leads in exports to Latvia, (47 percent), followed by the Baltic neighbors - Estonia and Lithuania (25 percent), and Central European countries (12 percent). The U.S. share in Latvian agricultural trade was 2.7 percent, reflecting both the inability of U.S. products to compete effectively with other suppliers and lack of U.S. supplier interest.

In 2000, U.S. agricultural exports were led by poultry products (30 percent of total), coffee extracts and essences (12 percent), frozen fish (12 percent), tobacco products (7 percent), dried fruits and nuts (7 percent). Other major products include rice (4.5 percent), alcoholic beverages (3.2 percent), fats and oils (3 percent), pet food (2.3 percent), and wines (2.1 percent).

U.S. suppliers dominated in Latvian imports of poultry products (55 percent), almonds (38 percent), corn (35 percent), dried fruits (32 percent), whiskey (16 percent), rice (12 percent), instant coffee (10 percent). For most products, domestic production capabilities meet between 70-90 percent of the demand.

The table below reflects the domestic capacity of certain basic food products.

**Domestic Market Value (based on consumption data)**

Product	Market value, 2000 (US\$ Mil)
Meat	354
Bakery products	178
Dairy products	194
Vegetables	146
Potatoes	75
Oils, fats	45
Soft drinks	29
Fruits, berries	88
Confectionery, Jams, Honey	34

Fish	50
Sugar	42
Spices, Condiments	22
Alcohol beverages	41
Total	844

## SECTION IV. BEST HIGH VALUE PRODUCT PROSPECTS

### A. Products Present on Market With Good Sales Potential

The following U.S. products are available in retail stores and have good market potential: frozen poultry products, rice, fish, pet foods, dried fruits and nuts, wine and fresh fruits. Some U.S. brands manufactured in other European Countries can be found, including chips, soft drinks, packed snacks and candy/confectionaries.

### B. Products Not Present in Significant Quantities but Have Good Sales Potential

Rather unfamiliar to Latvian consumers are low fat, low salt, sugar free, and cholesterol free products, as well as brown sugar, cake mixes, marshmallows, corn meal, graham crackers and chocolate chips. Potential U.S. export items include: snack foods with a long shelf life such as raisins, dried foods, nuts, peanut butter, jams, jellies, frozen yogurt, sherbets, soft drinks, drink mix powders, frozen juice, wine, frozen foods, pizzas, meat, pasta preparations, frozen and canned seafood, frozen and canned vegetables and fruits, maple syrup, and assorted convenience goods such as cheese, sauces, salad dressings and breakfast cereals.

### C. Products Not Present Due to Significant Barriers

High value processed U.S. food products hold good potential opportunity, however, imports are currently disadvantaged by the preferential and even zero tariff treatment of Latvia's free trade area agreement partners (mainly the EU). In addition, Latvia's implementation of sanitary and phytosanitary standards in conjunction with its preparations for EU accession have blocked some once-existing U.S. trade, especially of pork and beef.

## SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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T: 371 7021575, 371 7027 713  
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To include your products in a regional Baltics "virtual trade fair", please visit  
<http://baltic.trade-fair.com>

The business center of the Latvian Development Agency has established a website  
<http://lda.gov.lv/eksports/bizness> to help matching of trade interests. Your Cooperation and investment  
proposals can be sent to [invest@lda.gov.lv](mailto:invest@lda.gov.lv) , or to fax: 371 782 0458.

For general questions about product import into Latvia, please contact:

Foreign Agricultural Service, USDA  
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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page: [www.fas.usda.gov](http://www.fas.usda.gov) and the FAS/Stockholm regional headquarter office at [www.usemb.se/Agriculture](http://www.usemb.se/Agriculture)

### Key Economic Indicators

Agricultural Imports From All Countries	381/2
Consumer Food Imports From All Countries (\$Mil)/U.S. Market Share (%)*	278/3
Edible Fishery Imports From All Countries (\$Mil)/U.S. Market Share (%)*	21/3
Total Population (Millions)/Annual Growth Rate (%)	2.36/-0.8
Urban Population (Millions)/Annual Growth Rate (%)	0.9/-0.8
Number of Major Metropolitan Areas	1
Size of the Middle Class (Millions)	0.6
Per Capita Gross Domestic Product (U.S. \$)	3,013
Unemployment Rate (%)	7.9
Per Capita Food Expenditures (U.S. \$), year	495
Percent of Female Population Employed	43
Average Exchange Rate US\$1	0.606 Lats

\* Source: UN Trade data